

PROPOSAL FOR AN INCREASE IN A LINE OF CREDIT FOR PROJECT PREPARATION AND EXECUTION (PROPEF)

(AR-0137)

EXECUTIVE SUMMARY

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| Borrower and guarantor: | The Argentine Nation | |
| Executing agency: | The Ministry of Economic Affairs, through the Secretariat of Finance | |
| Amount and source: | IDB (OC): | US\$30 million |
| | Total: | US\$30 million |
| Nature of the operation: | Conditional revolving line of credit | |
| Objectives: | The underlying objective is to increase the existing line of credit for Argentina, for use in accordance with the new guidelines approved by the Bank in March 2000 for the Project Preparation and Execution Facility (document GN-2085-2, "New flexible lending instruments"). | |
| Description: | In accordance with document GN-2085-2, the line of credit may be used to finance the following activities: (a) project preparation , (b) support for implementation capacity, and (c) limited investments . | |
| The Bank's country and sector strategy: | The strategy outlined in the country paper (in preparation) is consistent with the terms of the Eighth General Increase in Resources and the mandate of the Forty-first Annual Meeting of the Bank's Board of Governors. This strategy seeks to work closely with the government in its efforts to achieve fiscal balance and deepen reform of the State; to enhance the efficiency of social spending and improve the quality of life; to promote sustainable growth in sectors of production and raise productivity; and to deepen the process of regional integration. | |

Benefits: The line of credit will facilitate the needs of project preparation on a timely basis. It will also strengthen the execution capacity of the executing agency, and assist with investment that is needed prior to eligibility for disbursement, thereby shortening deadlines and the cost of project startup.

**Exceptions to
Bank policy:** None

I. FRAME OF REFERENCE

A. Background

- 1.1 In August 1992, the Bank approved a conditional line of credit of US\$5 million for the Project Preparation Facility (PPF) (document AT-903) in order "to strengthen and shorten the stage of project preparation by facilitating both the approval of loans by the Bank and the execution of projects".
- 1.2 This revolving line of credit made it possible to finance 13 individual PPF operations in an aggregate amount of US\$9.1 million¹, of which 50.3% was intended for social projects, 42.4% for productive projects, and 7.3% for reform-oriented projects. The operations approved are listed below:

| PPF | Project name | Project number | Amount (US\$) | Approved |
|------------|---|----------------|---------------|------------|
| 747/OC-AR | Development of environmental institutions | AR-0065 | 218,291 | 05 Mar 93 |
| 746/OC-AR | Reconquista river cleanup | AR0038 | 163,001 | 09 Mar 93 |
| 750/OC-AR | Technology modernization | AR0141 | 689,720 | 06 Apr 93 |
| 753/OC-AR | Transport corridors | AR0128 | 1,500,000 | 30 Apr 93 |
| 761/OC-AR | Social investment in municipalities | AR0058 | 197,533 | 08 July 93 |
| 762/OC-AR | Support for eligibility process | Various | 348,584 | 02 Aug 93 |
| 807/OC-AR | Administrative and financial reform | AR0149 | 445,622 | 27 Dec 93 |
| 809/OC-AR | Technology modernization | AR0141 | 260,000 | 04 Feb 94 |
| 821/OC-AR | Provincial agriculture development | AR0061 | 1,500,000 | 18 Aug 94 |
| 895/OC-AR | Port modernization | AR0126 | 400,135 | 24 Oct 95 |
| 915/OC-AR | Nonuniversity post-secondary education reform | AR0181 | 1,291,000 | 01 Feb 96 |
| 946/OC-AR | Matanza-Riachuelo ecological recovery | AR0136 | 1,131,051 | 30 Aug 96 |
| 1187/OC-AR | Primary health care reform | AR0120 | 1,000,000 | 13 Jul 99 |
| TOTAL | | | 9,144,937 | |

- 1.3 These operations have provided support for (i) preparing operations with a view to shortening the approval stage, (ii) organizing executing units, particularly in the case of entities without previous experience with Bank-financed projects, (iii) assisting executing agencies with preparation and execution activities relating to conditions precedent to the first disbursement, including preparation of bidding conditions and specifications for the procurement process, and (iv) initiating key project activities in parallel with conditions precedent to the first disbursement.
- 1.4 One of the PPF operations approved, loan 762/OC-AR, involved financing for a group of freelance consultants hired by the Ministry of Economic Affairs, through

¹ Net of cancellations. The sum of US\$10.9 million was originally approved.

the National Service for Projects with International Lending Agencies, to assist the Service and various executing agencies with the disbursement eligibility process for the 1993-1995 operations program. Overall, the expected outcome of this operation was achieved although coordination between consultants and executing agencies was hampered by the absence of any contractual arrangement, particularly when the executing agency was not an agency of the national government.

- 1.5 Experience has shown that the execution time for PPF operations usually runs over contractual deadlines. It is suggested then that the possibility of using mechanisms to expedite the procurement of goods and services required for the PPF be considered. This issue will be discussed with the executing agency for each individual operation.
- 1.6 Also, as in the case of investment loans, a presidential decree was required to process the most recent PPF operation (approved for the health sector), a procedure that took more than three months. That the necessary budgetary appropriations were not allocated in advance was a further problem. Although a budgetary appropriation is essential for funding a PPF, the national authorities should review the internal procedures so that PPF operations can get under way as promptly as possible. This matter will be broached at the next meeting of the Programming and Portfolio Review mission.

B. Country strategy

- 1.7 The strategy outlined in the country paper (in preparation) is consistent with the mandate of the Forty-first Annual Meeting of the Bank's Board of Governors. The purpose of this strategy is to work closely with the government in its efforts to bring about **fiscal balance and deepen reform of the State; to enhance the efficiency of social spending and improve the quality of life, to promote sustainable growth in sectors of production and raise productivity; and to deepen the process of regional integration.**

C. Program of operations

- 1.8 For purposes of implementing this strategy, the Bank recently identified with national authorities the projects for the 2000-2001 operations program. These operations are listed below.

| ARGENTINE REPUBLIC PROGRAM OF OPERATIONS 2000-2001 | | | | |
|---|-------------|-------------|-------------|--------------|
| | RS | PRQL | CNP | Preparedness |
| PROJECTS 2000-A | | | | |
| AR-0261 Preparation of national consensus and national accounts | 60 | | | Profile II |
| AR-0257 Modernization of state Province of Córdoba | 100 | | | Profile I |
| AR-0265 Institutional strengthening Ministry of Foreign Affairs and Trade | 10 | | | Profile I |
| AR-0176 Basic education II | | 300 | | Profile I |
| AR-0202 Border crossings and integration corridors | | | 200 | Profile II |
| Expanded PPF* | | | | |
| PROJECTS 2000B | | | | |
| AR-0266 Financial sector program | | | 500 | Idea |
| AR-0271 Support for fiscal adjustment and social reform | | 250 | | Idea |
| AR-0243 Pro-Huerta project ^{1/} | | 27 | | Profile II |
| AR-0262 Neighborhood improvement City of Rosario | | 43 | | Profile I |
| TOTAL 2000: 1490 | 170 | 620 | 700 | |
| PROJECTS 2001-A | | | | |
| AR-0269 Infrastructure Fund | | | ND | Idea |
| AR-0263 Road and railway transport safety | | | 100 | Profile I |
| AR-0264 AFIP strengthening II | 96 | | | Profile I |
| AR-0247 Citizen security | 100 | | | Profile I |
| AR-0272 Integrated poverty reduction plan | | ND | | Idea |
| AR-0232 Support for less developed provinces | 20 | | | Idea |
| AR-0241 PROCOM agrifood competitiveness program | | | 100 | Profile I |
| AR-0273 Modernization of education and management province of Buenos Aires | | 350 | | Idea |
| PROJECTS 2001-B | | | | |
| AR-0274 National housing program | | 150 | | Idea |
| AR-0245 RTC for Yaboti Reserve sustainable management | | 9 | | Profile I |
| AR-0268 Support for rural communities (PROCOR) | | | 5 | Idea |
| AR-0275 Youth improvement and social integration program | | 33 | | Idea |
| AR-0199 Tourism development | | | 25 | Idea |
| AR-0270 Support for Ministry of Justice | 10 | | | Idea |
| AR-0227 National Environmental Fund | | 40 | | Profile |
| TOTAL 2001: 1038 | 226 | 582 | 230 | |
| PIPELINE | | | | |
| AR-S/N Support for implementation of State reform | ND | | | Idea |
| AR-S/N Agricultural development | | | ND | Idea |
| AR-0240 Agricultural services in the provinces (PROSAP II) | | | 100 | Profile II |
| TOTAL PIPELINE: 100 | - | - | 100 | |
| TOTAL 2628 | 396 | 1202 | 1030 | |
| Percentages 100% | 15.1 | 45.7 | 39.2 | |
| RS: Reform of the State PRQL: Poverty reduction and improvement in quality of life CNP: Raising competitiveness of national production * Expanded line of credit amounts to US\$30 million | | | | |

^{1/} The national authorities will confirm whether they wish to process this operation under the poverty reduction program.

- 1.9 The increase in the line of credit will make it possible to address the needs of the present operations program in terms of preparation and implementation as well as those of the operations program identified for the next few years, supplementing the trust fund resources and funds not yet committed for preinvestment (loan 925/OC-AR).

II. REVOLVING CONDITIONAL LINE OF CREDIT

A. Objective

- 2.1 The underlying objective is to increase the existing line of credit for Argentina, for use in accordance with the new guidelines approved by the Bank in March 2000 for the Project Preparation and Execution Facility (document GN-2085-2, "New flexible lending instruments"). This will make it possible (i) to strengthen the preparation of projects in the Bank's operations program, and (ii) to broaden support to include activities to finance startup of the project prior to the first disbursement and to establish a framework for institutional sustainability.

B. Description

- 2.2 The extended Facility will continue to serve as an instrument to strengthen and shorten the project preparation stage although it may also be used to cover financial shortfalls that could occur towards the end of the project preparation process when additional activities are needed to set the project in motion but the conditions precedent to the first disbursement have not yet been fulfilled.
- 2.3 The proposed amount of the line of credit (US\$30 million) is consistent with the requirements for preparation and implementation of the operations program for the next few years.

III. EXECUTION OF THE LINE OF CREDIT

A. National coordinating agency and executing agencies

- 3.1 The Ministry of Economic Affairs, through its Finance Secretariat, will continue to be the national coordinating agency and in this capacity will transfer resources to government agencies in charge of projects for eligible activities. The funds will be transferred under an agreement between the two parties specifying the purpose of the funds and the executing agency's obligations. The executing agencies will be in charge of carrying out individual operations financed under the Facility.

B. Operating Regulations

1. Eligible projects

- 3.2 Projects that are part of the Bank's official lending program and on which agreement exists between the Bank and the country on the basic concept of the project will be eligible for PROPEF financing.

2. Activities to be financed and use of resources

- 3.3 The regulations governing activities to be financed and the use of resources under this Line of Credit will be those established for the Facility in document GN-2085-2, covering (a) project preparation, (b) support for implementation capacity, and (c) limited investments. These activities are described below:

a. Project preparation component

- 3.4 Under this component, financing will be provided for expenses relating to: (i) start up and completion of prefeasibility and feasibility studies and final designs, preparation and review of bidding documents, studies having to do with assessments of a project's macroeconomic and sector impacts, and studies and analysis of technical, environmental, economic, financial, institutional, and social factors relating to project analysis, and (ii) strengthening the process of project preparation, including the hiring of consultants, procurement of goods and supplies for project preparation, and travel inside or outside the country by staff of the borrower or executing agency for project development activities.

b. Support for the implementation capacity component

- 3.5 Under this component, financing will be provided for costs associated with: (i) hiring and/or training of technical and administrative personnel or specialized support staff of executing agencies and local institutions in relevant areas for implementation and eventual execution of the new project; (ii) purchase of equipment and office supplies; (iii) leasing expenses, fax, telephone and internet service, and public services in support of the efficient implementation and operation of the new unit, as justified; and (iv) travel, including per diems, for staff of executing agencies and local institutions, if applicable. The activities planned for this component will need to be listed and justified on a case-by-case basis. Emphasis must always be given to promoting sustainable project execution capacity that encompasses local institutions, thus guaranteeing institutional sustainability (and not limited solely to a specific institution).

c. Limited investment component

- 3.6 Under this component, financing will be provided for costs associated with low-risk high-impact investments that are considered essential for speeding up project

execution. Such investments could include the installation of systems for financial control and monitoring of the project, accounting and audit systems, and computer hardware and software. The project team will also need to analyze these requirements on a case-by-case basis and allocate resources to the operation's table of costs with proper justification.

3. Maximum amount of financing

- 3.7 The financing that may be used to **prepare** each project and support activities involved with **project execution** that are chargeable to the PROPEF, based on the guidelines established in document GN-2085-2, may not exceed an aggregate amount equivalent to US\$5 million.

4. Processing of individual operations and level of authority for approval

- 3.8 Once the Profile I has been approved, up to US\$1.5 million may be requested and the remainder, to a maximum of US\$5 million, may be requested upon approval of the Profile II. The heads of division are authorized to approve amounts of up to US\$1.5 million and the managers amounts of up to US\$5 million. Notwithstanding the foregoing, (a) if approval of an individual operation results in authorization of financing from the PROPEF in an amount exceeding the equivalent of US\$750,000 for any given project prior to approval of the Profile II, the operation must be submitted to the Manager for approval; and (b) if approval of an individual operation results in authorization of financing from the PROPEF in an amount exceeding the equivalent of US\$3 million for any given project prior to approval of the loan, the individual operation must be submitted to the Loan Committee for approval.

5. Disbursements

- 3.9 The disbursement procedures for PROPEF-financed funds will be the same as those in effect for IDB lending operations. Once an individual operation has been approved, the special conditions contained in the Letter of Agreement will need to be fulfilled as conditions precedent to the first disbursement.
- 3.10 The disbursement requests will be presented through the IDB Country Office in Argentina. The disbursement period for any individual operation will be 24 months from the date on which the Letter of Agreement is signed.

6. Procurement of goods and services

- 3.11 Consulting services to be financed out of the proceeds of the present line of credit will be hired in accordance with the Bank's procedures. The executing agency (beneficiary) will be responsible for hiring consultants. As an exception, however, the Bank may hire consultants if so requested in writing by the executing agency and the analysis of the operation justifies such a request.

- 3.12 The Bank's usual procedures will be applied to procurement of goods and services for limited investments chargeable to the Facility.

7. Financial conditions for individual operations

- 3.13 Individual PROPEF operations will be financed from the Ordinary Capital resources. These operations will be subject to the same lending charges and fees as the Bank's regular loans. Interest will begin to accrue from the date of disbursement. The credit fee will begin to accrue 60 days after the date of the Letter of Agreement. All fees will be paid out of the proceeds of the IDB loan at the time of the first disbursement.

8. Recoveries

- 3.14 Disbursements will be recovered in accordance with the PROPEF terms and conditions in effect and as provided in document GN-2085-2.
- 3.15 Principal recovered will be reinvested in the line of credit, and interest and fees accrued on funds disbursed will be paid to the Bank's general account.

C. Environmental and social considerations

- 3.16 Considering that the PROPEF is to be used simply to help prepare projects and limited low-risk investments from the original PPF, it was felt that they need not be submitted to the Committee on Environment and Social Impact (CESI): (i) in the case of lines of credit, because they constitutes merely an authority to grant loans up to a previously established amount, and (ii) in the case of individual operations, because they are limited to assisting with project preparation, which in accordance with the Bank's operating regulations, project profiles, and documentation will be considered by the CESI in due course for evaluation and recommendations.

D. Inspection and supervision

- 3.17 The Country Division will be in charge of monitoring all aspects of the line of credit. The Bank's Country Office, in conjunction with the Project Team, will be responsible for inspection and supervision of individual operations.

IV. JUSTIFICATION

- 4.1 The present line of credit supplements other project preparation mechanisms at the country's disposal and establishes a sources of financing that will be available on a timely basis for use by the country and the project team as the need arises to fund studies and/or prepare more information for analysis of projects added to the lending program agreed on between the country and the Bank. In addition, this

financing will make it possible to perform institutional strengthening activities to complete actions for expediting disbursement of loans and project execution.

4.2 The increase in the line of credit is expected to help:

- (a) Facilitate greater participation by the Bank from an earlier stage of project preparation so that it can provide more effective advisory assistance to executing agencies on the progress of the works and their expected quality.
- (b) Provide a better understanding of the preparedness of each project in the lending program agreed on between the country and the Bank, making it possible to monitor more effectively the tasks identified during the programming exercise.
- (c) Shorten the time required for preparation of sector projects and/or programs supported under the line of credit, thereby reducing the costs involved in the process.
- (d) Address requirements in terms of strengthening of the execution capacity of the respective executing agency on a timely basis in order to shorten the time between approval of a loan and startup of project activities.

V. RISKS OF THE OPERATION

5.1 Given its nature and the mechanisms established for this operation and its monitoring, the line of credit is not expected to entail any risks.